**STATEMENT OF
THE FEDERAL MARITIME COMMISSION
PRESENTED BY
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**BEFORE THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND
MARITIME TRANSPORTATION
UNITED STATES HOUSE OF REPRESENTATIVES
JUNE 19, 2008**

Mr. Chairman, and members of the Subcommittee, thank you for this opportunity to address the Subcommittee. With me today are my fellow Commissioners, Hal Creel and Joe Brennan. As you know, Commissioner Paul Anderson recently left the agency.

We have made significant operational and management changes at the agency since the last hearing. We have instituted regularly scheduled bi-monthly meetings of the Commission. These meetings facilitate public access and provide a forum for the Commission to conduct its day-to-day administrative activities efficiently in the absence of a chairman. Further, our senior staff are reviewing the results of our employee survey, receiving staff suggestions and converting good ideas into positive action. We believe these actions by both the Commissioners and our senior staff will begin to address the concerns raised at the previous hearing. We are happy to answer any questions on the management of the agency.

We are appearing before the Committee during a very interesting time - not only for the Commission, but also for the maritime industry at large. Due to international economic conditions, we are facing dramatic increases in demand for U.S. exports on the eve of shifting competition policies among our trading partners.

The Ocean Shipping Reform Act of 1998 ("OSRA") significantly deregulated the U.S. trades and eliminated some of the commercial obstacles between shippers and carriers. Since the enactment of OSRA we have witnessed tremendous growth in the U.S. trades. Competition in the U.S. trades has been enhanced because of the success of confidential contracting under OSRA. If additional regulatory improvements or efficiencies are warranted, we will analyze the options and pursue those that are most promising.

Growth in U.S. Exports Brings New Challenges

As we identified in the April 2008 budget hearing, the total cargo volume of U.S. liner exports shipped worldwide grew by 12 percent in fiscal year 2007 and by 18 percent in the first half of this fiscal year. These increases are due largely to the declining value of the U.S. dollar relative to foreign currencies and the rising standard of living of our trading partners. For the first time in many years, total imports have declined slightly by a little over one percent in fiscal year 2007, and by five percent for the first half of fiscal year 2008. However, import cargo still exceeded export cargo, an imbalance of approximately one (1.0) twenty-foot equivalent container units ("TEU") of goods exported out of the U.S. for every 1.8 TEUs of cargo imported into the U.S. This increase in export cargo has had corresponding impacts on the supply chain.

As in preceding years, China was the leading trading partner in liner cargo with the U.S.; over half of all U.S. liner cargoes (both imports and exports) are concentrated in trade with countries in Northeast Asia. Cargo growth in imports from Asia slowed substantially by the end of fiscal year 2007, to less than one percent, down from a growth rate of 15 percent in fiscal year 2006. Some of this drop can be attributed to the corresponding declines in the U.S. housing market and rising costs of energy and fuel. Conversely, U.S. liner exports to Asia grew by 11 percent, up from a 6 percent increase in the preceding fiscal year.

The Commission has been closely monitoring recent developments in the U.S. export trade. Due to a variety of international economic conditions, the U.S. export trade has experienced strong growth. This growth, however, has not come without corresponding challenges as the nature of the import/export equation shifts due to the increasing demand on the export side. Namely, shippers in some parts of the country have been having difficulty in obtaining sufficient equipment and service to ship their goods overseas. The Commission is reaching out to carriers and shippers in an effort to find a solution to our exporters' problems and help the industry overcome the challenges of shifting trade dynamics.

Competition Review

With the European Union's block exemption set to expire in five months, the Commission is already exploring how elimination of the exemption in the E.U. trades would affect agreements filed with the Federal Maritime Commission. We estimate that only 6 agreements currently filed with the Commission will need to be restructured or eliminated to ensure carrier compliance with EU guidelines.

To put this figure into perspective, there are 234 carrier agreements currently filed with the Commission relating to the U.S.-foreign trades. Of these 234:

- 164 are vessel-sharing agreements
- 27 are rate discussion agreements
- 8 are non-rate-based discussion agreements
- 11 are cooperative working agreements

- 7 are joint service agreements
- 8 are conference agreements
- 6 are equipment interchange agreements
- 2 are alliance agreements, and
- 1 is a sailing agreement.

Perhaps more important than the elimination of the bloc exemption, the European Commission is scheduled to review the existing exemption for other carrier consortia agreements which is due to expire in 2010. Elimination of the consortia exemption could have significant impacts on U.S. trades through the elimination of numerous carrier alliances and vessel-sharing agreements (commonly known as "VSAs"). These operational agreements tend to enhance efficiency, restrain carrier consolidation and extend available services. The Commission receives many more alliance and vessel-sharing agreements than rate-making or discussion agreements. The impact on vessel-sharing agreements alone, as the most numerous type of agreement filed, would place at risk many of the efficiency enhancing attributes of such agreements.

From the U.S. perspective, a primary objective of VSAs is to ensure an efficient and adequate supply of ocean transportation services so that U.S. exports and U.S. trade can compete globally. When vessel operators use their limited exemption from competition laws to coordinate their operations or share assets to reduce costs or improve service it is not just carriers who benefit, but also U.S. businesses, producers and U.S. consumers.

The Commission will, however, have a better indication of the immediate and long term effects of the repeal of the bloc exemption on the European trades in the months following its effectiveness. We expect to monitor the transition and will study the impacts of the European Union's repeal of the bloc exemption. While the full parameters of the Commission's study are still being developed, we intend to conduct before-and-after comparisons of market conditions within the U.S. trades that would be most affected by the bloc exemption repeal. The Commission encourages members of the industry and the public to participate in our studies and to provide their insights upon this transition.

Agreement Activities

The Commission has continued to monitor the international liner trades, focusing most recently on agreement activities relating to marine terminal operators. Such agreements include those that address supply-chain and operational issues such as port congestion, security, air pollution and environmental concerns that affect local communities and the industry, including, in particular, the Clean Truck Program ("CTP") in the Port of Los Angeles and the Port of Long Beach ("the Ports"). The cities of Los Angeles and Long Beach, acting through their Harbor Boards, filed the *Los Angeles and Long Beach Port Infrastructure and Environmental Programs Cooperative Working Agreement* ("the Infrastructure Agreement") with the Commission to allow them to discuss and agree upon joint programs to address environmental and transportation infrastructure issues. Pursuant to that agreement the Ports developed the San Pedro Bay Ports Clean Air Action Plan ("CAAP") to address diesel emissions from multiple port sources, including heavy-duty trucks used in cargo drayage, ocean-going vessels, cargo-handling equipment, harbor craft, and railroad locomotives.

In order to implement the CTP, the Ports and the respective marine terminal operators filed the Los Angeles/Long Beach Port/Terminal Operator Administration and Implementation Agreement ("Implementation Agreement"). This agreement provides authority for the parties to cooperate on the administration and operation of port programs relating to port security, infrastructure, or clean air, such as the testing and implementation of TWIC and the administration of certain CTP programs. It also permits and provides for future agreement upon the admission or exclusion of licensed motor carriers ("LMC") trucking firms, and barring non-CTP-compliant equipment from entering the marine terminals. Los Angeles has announced its intention to limit access to port terminals to qualified LMCs who must use only employee drivers to the exclusion of independent owner-operators. Due to concerns for these latter provisions, the Commission initially requested additional information from the parties relative to the competitive effects of the activities conducted pursuant to the agreement.

Last week, the Commission concluded an expedited review of the Implementation Agreement and allowed the agreement to go into effect. The AIA contemplates future discussions to determine the extent to which the terminal operators will implement certain aspects of the San Pedro Ports Clean Trucks Program and the AIA Parties have not agreed to specific implementation procedures. The Commission concluded that there was no basis at this time to determine that the Implementation Agreement is likely to result in an unreasonable increase in transportation costs or decrease in transportation service. The Commission will continue to closely monitor developments at the Ports in order to ensure that agreement activities do not contravene the Shipping Act, and has emphasized to the Parties the need to immediately file with the Commission all substantive aspects of the Clean Truck Programs.

Mr. Chairman, we hope that these comments have provided you with an overview of some of the important issues the Commission is currently addressing. We are happy to answer any questions you may have.